

BANK INDONESIA

**BANK INDONESIA REGULATION  
NUMBER 2/5/PBI/2000**

**CONCERNING**

**PROVISION OF BANK FUNDS GUARANTEED BY OTHER BANKS**

**THE GOVERNOR OF BANK INDONESIA,**

- Considering:
- a. whereas to stimulate activity in the national economy, it is necessary to have provision of funds by banks;
  - b. whereas to minimise credit risk, banks are required to uphold proper compliance with prudential principles in provision of funds;
  - c. now therefore it is deemed necessary to establish provisions for Provision of Bank Funds Guaranteed by Other Banks in a Bank Indonesia Regulation;

- In view of:
1. Act Number 7 of 1992 concerning Banking (State Gazette Number 31 of 1992, Supplement to the State Gazette Number 3472) as amended by Act Number 10 of 1998 (State Gazette Number 182 of 1998, Supplement to the State Gazette Number 3790);
  2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette Number 66 of 1999, Supplement to the State Gazette Number 3843);

**HAS DECREED:**

To enact: **THE BANK INDONESIA REGULATION  
CONCERNING PROVISION OF BANK FUNDS  
GUARANTEED BY OTHER BANKS.**

## **CHAPTER I**

### **GENERAL PROVISIONS**

#### **Article 1**

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. Bank is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998, including a branch office of a foreign bank;
2. Legal Lending Limit (LLL) is the percentage ratio of maximum permitted provision of funds in comparison to Bank capital;
3. Capital is the capital of a Bank as referred to in the Bank Indonesia provisions concerning the Capital Adequacy Ratio;
4. Investment Grade is a rating issued by a leading rating agency;
5. Provision of Funds is the placement of Bank funds, whether in rupiahs or foreign currencies, comprising credit, securities, and interbank placements, including commitments and contingencies.

#### **Article 2**

- (1) A portion of Provision of Funds to connected parties for each borrower or group of borrowers guaranteed by another bank shall be exempted from the provisions of the Legal Lending Limit to a maximum limit of 90% (ninety percent) of Bank Capital.
- (2) A portion of Provision of Funds to non-connected parties for each borrower or group of borrowers guaranteed by another bank shall be exempted from the provisions of the Legal Lending Limit to a maximum limit of:
  - a. 70% (seventy percent) of Bank Capital until the end of 2001;
  - b. 75% (seventy five percent) of Bank Capital during 2002;
  - c. 80% (eighty percent) of Bank Capital after January 1, 2003.
- (3) Other Bank guaranteeing Provision of Funds as referred to in paragraph (1) and paragraph (2) shall comply with the following requirements:
  - a. Investment Grade; and
  - b. total assets placing it within the 200 (two hundred) largest in the world.

### **Article 3**

- (1) A guarantee issued by the other bank as referred to in Article 2 paragraph (1) and paragraph (2) shall comply with the following requirements:
  - a. is irrevocable;
  - b. must be realizable not later than 7 (seven) days after filing of claim;
  - c. has a term of not less than the term of maturity of the Provision of Funds; and
  - d. is not guaranteed by a Bank.
- (2) A Bank shall file claim against a received guarantee not later than:
  - a. 90 days after arrears in installments on loan principal and/or interest and/or other claims, even though the Provision of Funds has not reached maturity; or
  - b. in the event that payment of loan principal and/or interest and/or other claims have not been received upon maturity of the Provision of Funds.

### **Article 4**

- (1) Provision of Funds in the form of interbank placements in other banks not participating in the Government guarantee program shall be exempted from the Legal Lending Limit up to a maximum limit of Bank Capital.
- (2) Other Bank receiving interbank placements as referred to in paragraph (1) shall comply with the following requirements:
  - a. Investment Grade; and
  - b. total assets placing it within the 200 (two hundred) largest in the world.

### **Article 5**

Investment Grade as referred to in Article 2 paragraph (3) letter a and Article 4 paragraph (2) letter a is stipulated as a minimum of:

- a. BBB or equivalent issued by the Standard & Poors rating agency; and
- b. Baa or equivalent issued by the Moody's rating agency; or
- c. Equivalent to letter a and letter b, issued by another rating agency approved by Bank Indonesia.

#### **Article 6**

The stipulation of Investment Grade as referred to in Article 5 and ranking by total assets as referred to in Article 2 paragraph (3) letter b and Article 4 paragraph (2) letter b may be amended in a Circular Letter of Bank Indonesia.

#### **Article 7**

- (1) A Bank having Provision of Funds guaranteed by another bank as referred to in Article 2 shall report to Bank Indonesia each month in accordance with the format in Appendix 1 and Appendix 2.
- (2) The reports referred to in paragraph (1) shall be signed by an authorized officer, a member of the Board of Directors, and a member of the Board of Commissioners.
- (3) The reports referred to in paragraph (1) shall be received by Bank Indonesia as an integral part of the report on the Legal Lending Limit.

#### **Article 8**

- (1) Any violation of the provisions of Article 2 and Article 4 shall be liable to the sanctions stipulated in the provisions in force concerning the Legal Lending Limit.
- (2) Any violation of the reporting provisions as referred to in Article 7 shall be liable to sanctions equal to the sanctions concerning delivery of reports as stipulated in the provisions concerning the Legal Lending Limit.

#### **Article 9**

Any violation of the provisions referred to in Article 3 and any violation of lending in excess of the Legal Lending Limit shall be liable to the sanctions applied to violations of the Legal Lending Limit.

#### **Article 10**

This Bank Indonesia Regulation shall come into force on the date of its enactment.

BANK INDONESIA

- 5 -

Enacted in: Jakarta,  
Date: February 21, 2000

**THE GOVERNOR OF BANK INDONESIA**

(signed)

**SYAHRIL SABIRIN**

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 18 OF  
2000

DPNP



BANK INDONESIA

**ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER 2/5/PBI/2000**

**CONCERNING**

**PROVISION OF BANK FUNDS GUARANTEED BY OTHER BANKS**

**GENERAL REVIEW**

Whereas banking institution play an intermediary role of mobilizing funds and channeling funds to the business sector. The provision of banking funds, among others by provision of credit, will directly or indirectly affect the development of business activity in the real sector in need of such financing. It is expected that provision of funds received by the business sector will be used for productive business activities, thus contributing to stimulation of activity in the national economy. Nevertheless, provision of funds by the banking system must always be based on prudential principles and the fundamentals of sound management.

To achieve the foregoing, banking institutions may conduct provision of funds by diversifying credit risk that may arise therefrom among other banks of Investment Grade. Investment Grade is determined according to rating scores issued by a leading rating agency.

**ARTICLE BY ARTICLE**

Article 1

Number 1

Provisions concerning Commercial Banks are guided by the provisions issued by Bank Indonesia concerning Commercial

Banks and the provisions issued by Bank Indonesia concerning Commercial Banks based on Syariah Principles.

Provisions concerning foreign banks are guided by the provisions issued by Bank Indonesia concerning Requirements and Procedure for Establishment of Branch Offices, Sub-Branch Offices, and Representative Offices of Foreign Banks.

Number 2

The provisions concerning the Legal Lending Limit are guided by the Bank Indonesia provisions concerning the Legal Lending Limit.

Number 3

Self-explanatory

Number 4

Leading rating agency includes but is not limited to Moody's, Standard & Poors, or other rating agency approved by Bank Indonesia.

Number 5

Commitments and contingencies are those comprising guarantee notes, acceptances/endorsements, sale of securities under repo, outstanding letters of credit (L/Cs), standby L/Cs, and other guarantees, as well as credit risk from derivative transactions.

Article 2

Paragraph (1) and Paragraph (2)

Guarantee received from other banks may originate from more than one guaranteeing bank.

Sample calculation:

a. Provision of funds to connected parties

Case 1

- Bank Capital = Rp 100 billion



- Total Provision of Funds = Rp 105 billion
- Guarantee received = Rp 97 billion
- Guarantee exempted from LLL (maximum 90%) = Rp 90 billion
- LLL for Connected Parties (10%) = Rp 10 billion
- Excess over LLL = Rp 105 billion - (Rp 90 billion + Rp 10 billion) = Rp 5 billion

Case 2

- Bank Capital = Rp 100 billion
- Total Provision of Funds = Rp 105 billion
- Guarantee received = Rp 40 billion
- Guarantee exempted from LLL (maximum 90%) = Rp 40 billion
- LLL for Connected Parties (10%) = Rp 10 billion
- Excess over LLL = Rp 105 billion - (Rp 40 billion + Rp 10 billion) = Rp 55 billion

b. Provision of funds to non-connected parties

Case 1

- Bank Capital = Rp 100 billion
- Total Provision of Funds = Rp 105 billion
- Guarantee received = Rp 103 billion
- Guarantee exempted from LLL (maximum 70%) = Rp 90 billion
- LLL for Non-Connected Parties (30%) = Rp 30 billion
- Excess over LLL = Rp 105 billion - (Rp 70 billion + Rp 30 billion) = Rp 5 billion

Case 2

- Bank Capital = Rp 100 billion
- Total Provision of Funds = Rp 105 billion
- Guarantee received = Rp 40 billion
- Guarantee exempted from LLL (maximum 70%) = Rp 40 billion
- LLL for Non-Connected Parties (30%) = Rp 30 billion
- Excess over LLL = Rp 105 billion - (Rp 40 billion + Rp 30 billion) = Rp 35 billion

Paragraph (3)

The 200 (two hundred) largest in the world by total assets shall be determined on the basis of the ratings formulated by *The Bankers' Almanac* in the latest year of edition available.

Article 3

Paragraph (1)

A guarantee issued by another bank shall take the form of Standby Letter of Credit based on the prevailing Uniform Customs and Practice for Documentary Credits (UCP) or other equivalent form insofar as it is approved by the relevant Directorate of Bank Supervision, Bank Indonesia, Jl. M.H. Thamrin No. 2, Jakarta 10110.

Paragraph (2)

Filing of claims shall be based on whichever of the events of letter a and letter b is first to occur.

Article 4

Paragraph (1)

Placements are defined as placements of Bank funds in other banks in the form of demand deposits, call money, time deposits, certificates of deposit, loans, and other placements.

Sample calculation

- a. Bank Capital = Rp 100 billion
- b. Provision of Funds
  - Rp 100 billion loan to a connected party guaranteed by another bank to the amount of Rp 97 billion;
  - Rp 5 billion in securities held by the connected party;
  - Rp 110 billion in interbank placement at a bank that is a connected party.
- c. Guarantee exempted from LLL (maximum 90%) = Rp 90 billion
- d. LLL for Connected Parties (10%) = Rp 10 billion
- e. Violation of LLL = Total Provision of Funds - (exempted placement + guarantee allowed for deduction + LLL) = Rp 215 billion - (Rp 100 billion + Rp 90 billion + Rp 10 billion) = Rp 15 billion.

Paragraph (2)

The 200 (two hundred) largest in the world by total assets shall be determined on the basis of the ratings formulated by *The Bankers' Almanac* in the latest year of edition available.

Article 5

The investment grade used shall be based on the type and maturity of Provision of Funds.

In the event that the maturity of provision of funds is short term, the rating used shall be the short term Investment Grade.

Application for approval of use of another rating agency shall be submitted to the Directorate of Banking Research and Regulation, Bank Indonesia, Jl. M.H. Thamrin No. 2, Jakarta 10110.

-

Article 6

Self-explanatory

Article 7

Paragraph (1)

Self-explanatory

Paragraph (2)

Self-explanatory

Paragraph (3)

The Legal Lending Limit report is the report of the Bank to Bank Indonesia in accordance with the Bank Indonesia provisions concerning the Legal Lending Limit.

Article 8

Paragraph (1)

Sanctions as provided for in the provisions for the Legal Lending Limit may take the form of sanctions for Violation or Lending in Excess of the Legal Lending Limit.

Paragraph (2)

Self-explanatory

Article 9

Self-explanatory

Article 10

Self-explanatory

# REPORT OF BANK PROVISION OF FUNDS GUARANTEED BY OTHER BANKS

Name of Bank:  
Reporting Month:

		Provision of Funds Under Guarantee				Guarantee received				(in millions of rupiahs)	
No	Name of Debtor	Type of Provision of Funds	Outstanding Balance	Term of Maturity	Quality	Guaranteeing Bank	Rating/Rating Agency/Date of Rating	Value	Effective Period	Remarks	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
	Connected Parties										
	Non-Connected Parties										

Acknowledged,

(signed)

(signed)

(signed)

Member of the Board of Commissioners

Member of the Board of Directors

Bank Officer

Name

Name

Name and Title

Notes on filling in columns:

- Column (3): type of provision of funds, e.g., credit, securities, interbank placements, commitments and contingencies.
- Column (4): outstanding balance at the end of the reporting month
- Column (5): date of commencement and date of maturity of the provision of funds.
- Column (6): quality of Provision of Funds in accordance with the provisions of the Decree of the Board of Managing Directors of Bank Indonesia concerning Earning Assets Quality.
- Column (8): rating of bank issuing guarantee, the institution conducting the rating, and the date that the rating took place.
- Column (10): date of commencement of guarantee and date of expiration of guarantee.

